

# TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

## Meeting Minutes

**DATE:** Friday, November 15<sup>th</sup>, 2019

**TIME:** 8:30 am

**PLACE:** Arizona Inn – (Safari Room) 2200 East Elm Street, Tucson, AZ

**Members Present:**

Mark Rubin, Chairman  
Joyce Garland, Finance Director (Arrived 9:09am)  
Ana Urquijo, HR Director (Arrived 8:43am)  
Kevin Larson, City Manager Appointee  
James Wysocki, Elected Retiree Representative  
Michael Coffey, Elected Representative

**Staff Present**

Art Cuaron, Pension & Benefits Administrator  
Pete Saxton, Pension Manager  
Tina Gamez, Administrative Assistant  
Tammy Perry, Pension Assistant

**Guests Present**

Catherine Langford, Yoder & Langford – TSRS Legal Counsel  
Dr. Krasner, Krasner Medical Consultants, LLC (Arrived 9:30am)  
John O'Hare, CTRA Representative (Arrived 1:11pm)  
Regina Corralejo, City of Tucson Employee  
Paul Erlendson, Callan Associates  
Gordon Weightman, Callan Associates  
Dana Woolfrey, Gabriel, Roeder, and Smith (Arrived 1:11pm)  
Paul Wood, Gabriel, Roeder, and Smith (Arrived 1:11pm)  
Michael Albrecht, JP Morgan (Arrived 8:39am)  
Shawn Parris, JP Morgan (Arrived 8:39am)  
Tom Klugherz, JP Morgan (Arrived 8:39am)

**Absent/Excused:**

Jorge Hernández, Elected Representative

Chairman Rubin called the meeting to order at 8:31 am.

**1) Consent Agenda (00:00-01:58)**

- a. Approval of September 26th, 2019 TSRS Board Meeting Minutes
- b. Retirement ratifications for October 2019
- c. Retirement ratifications for November 2019
- d. September 2019 TSRS Budget vs Actual Expenses
- e. October 2019 TSRS Budget vs Actual Expenses
- f. TSRS Portfolio Composition, Transactions and Performance Review September 2019
- g. TSRS Portfolio Composition, Transactions and Performance Review October 2019

**A motion to remove item (g) was made by James Wysocki, 2<sup>nd</sup> by Kevin Larson, passes unanimously (Jorge Hernandez, Joyce Garland and Ana Urquijo absent/excused).**

**A motion to approve items (a-f) on the consent agenda was made by James Wysocki, 2<sup>nd</sup> by Kevin Larson, passes unanimously (Jorge Hernandez, Joyce Garland and Ana Urquijo absent/excused).**

## **2) Capital Markets/Economic Update – Michael Albrecht – JPMorgan (17:16-59:55)**

Michael Albrecht gave a brief overview on Capital Markets.

Equities look a lot more attractive than bonds in the long term. The global economy is stuck in a phase of somewhat below-trend growth. We can expect 30% chance of recession. That is down from 40% earlier this year. Paul with Callan asked if they could give us a sense of their expectation of the capital markets over the next couple years, 10 years and 30 years. They like equities for the long term but for the short term they would like to have fewer equities; in the near term we would like to be less risky. This is because of the late cycle nature of the markets and the low unemployment rate.

A technology shock would sustain us for a couple of years. It prevents the economy from building up the pressures that are unsustainable. They aren't seeing this quite yet. However, the global economy has stabilized in their view. Mr. Coffey asks about the timeline, has this late cycle been running for 10 years? Michael answers and says we've been in this late cycle since 2017.

Michael stated that in their view, lowering interest rates to make it more attractive to borrow has become diminished. Manufacturing and construction are not the same share of the economy as it used to be, these are very sensitive sectors. Also, lowering interest rates may make it more attractive to buy a house it actually makes it more expensive and harder to come up with a down payment. They'd like to see fiscal policy pick up instead.

Paul with Callan asked about corporate debt. How confident is JP Morgan that the U.S. will not see negative rates? Michael says the U.S. will continue to have higher rates than most of the rest of the world. They believe rates will go lower before they go higher, possibly below 1%. They don't think they would go negative on bond yields.

In conclusion, they believe that real estate is typically one they like to emphasize because it does well during recessions. It offers a good income stream. Remain diversified and find streams of fixed income.

Presentation given, discussion held. No formal action taken.

## **3) Investment Portfolio Review (59:55-01:39:34)**

a. JPMorgan Asset Management – Shawn Parris

Tom Klugherz gives a brief overview of the returns on our two investment portfolios.

The primary focus of real estate is office, residential, retail and industrial. Mr. Rubin asked what they think about the long-term trend of working at home vs office and if they are affecting the commercial real estate market. Tom says yes, retail has definitely taken a hit to online shopping however, industrial has been the beneficiary of this hit. What retailers have done to help with the retail hit is they have added more to shopping experiences to attract shoppers. High end malls with movie theaters, etc. On the office use trend, they are having their smaller tenants do a co-working environment. Moderating office demands.

Paul with Callan had questions about the change in their portfolio management team. Their management team has moved around but essentially, they have just added more resources. The changes were not because of underperforming.

Tom addressed the underperformance of the two funds. They have been working on it for 3+ years. They have a lower risk strategy. Not chasing development and staying with multi/family real estate. They have also sold quite a few larger buildings. The return we will see will be from the income and the growth of that income. They admit they were late to move on industrial and are now building their own industrial portfolios in the right areas.



The office portfolio will be the strongest performer in the next 3-5 years. They are projecting 7-9% net operating income growth mostly from leases that are already in place.

Presentation given, discussion held. No formal action taken.

**Break: 10:10 am**

**Returned: 10:25 am**

#### **4) TSRS Disability Application and Process Discussion (01:39:34-03:03:27)**

##### **a. Dr. Krasner Presentation and Question/Answer Session**

Dr. Krasner gave a brief overview of what his disability application process looks like and what he looks for. He can determine if the person is permanently or temporarily impaired. If permanent he disregards occupation and only looks at medical condition. He then compares that with their job requirements. He can only look at medical records. He doesn't know what they could or couldn't do, for example a person with a broken hand may be medically able to play the piano (after healing), but that does not mean they have the skill to play the piano. There are several different disability systems and each one has their own definition. Just because the Social Security Administration has approved their disability doesn't mean they can't do their job or any job. It's ultimately up to the TSRS board to determine whether or not to agree with the doctor's assessment.

Board discussion regarding the current code not being clear on who certifies the disability. The Board discussed the difference between functional restrictions which are determined by the medical examiner and unable to perform any substantial gainful employment. The board only determines if an individual is entitled to a pension based on the established criteria, they aren't offering other options.

Presentation given, discussion held. No formal action taken. Direction was provided to staff to bring back revised code language.

#### **5) Disability Application (01:58-08:40)**

##### **a. Rosario Del Toro**

**A motion was made by Kevin Larson to approve Rosario Del Toro Disability Application, 2nd by James Wysocki. The Disability Application of Mr. Del Toro was approved unanimously. (Jorge Hernandez, Joyce Garland and Ana Urquijo absent/excused).**

Cassie Langford called the Board's attention to the ratification of Mr. Del Toro's benefit which had just been approved. Pete Saxton provided a preliminary benefit estimate to the board for ratification. Type of retirement is a disability retirement with an effective date of 11/15/19. Average final monthly compensation of \$3,000.83. The option chosen is J&S 100% per the verbal direction of the member and the amount is \$760.34/month.

**A motion was made by James Wysocki to approve Rosario Del Torre's retirement benefit subject to final ratification, 2<sup>nd</sup> by Kevin Larson. The retirement benefit for Mr. Del Torre was approved unanimously. (Jorge Hernandez, Joyce Garland and Ana Urquijo absent/excused).**

#### **6) Administrative Discussions – Art Cuaron (09:16-16:00)**

**This item was taken out of order and discussed after item 5.**

##### **a. Staff Update**

Introduced Tammy Perry the new Pension Assistant and announced that TSRS is fully staffed.

##### **b. Board Member Election**

Jorge Hernandez' term is up on 1/31/2020. We will be sending out a notification to all active members. He is able to serve 1 more term. The board did adopt some new rules about extending terms. The plan is to go to Mayor and Council with that code amendment in January or February when we bring the rate approval to them. There will be an opportunity for active membership to take a seat on the board. Board discussed what exactly the new rules were. Cassie explained that the board wanted to propose a longer 4-year term to Mayor and Council.

c. Approval of 2020 Meeting Schedule

Art discussed the need to approve the 2020 board meeting schedule. It appears that the preference of the board is to have fewer meetings but have them last longer. The staff is currently working on this idea, however, if there is something pressing we can have our normal monthly meeting. The meeting schedule that is proposed is to get in on the calendar, however, it is subject to change. Mr. Larson asked if we can give them more advance notice regarding cancellations. Art said yes, this is a possibility unless we have a disability application that would need to be reviewed.

Mr. Coffey mentioned that there was some discussion of allowing the chairman to sign off on disability applications. Art explains that was on the ratification report only. Right now, when we skip a meeting the chairman and Joyce sign off on them. The disability applications must be heard by a quorum of the board. Mr. Rubin suggests maybe handling it by phone. Art cautions the board on phone meetings. It's a Mayor and Council policy that boards and commissions do not meet by phone.

**A motion was made by Kevin Larson, 2<sup>nd</sup> by Ana Urquijo, to approve the 2020 TSRS Board Meeting Calendar, passes unanimously (Jorge Hernandez and Joyce Garland absent/excused).**

The meeting adjourned for lunch at 11:49 am

Chairman Rubin called the meeting to order at 1:10 pm

**7) Actuary Valuation Report for June 30, 2019 – Gabriel Roeder Smith & Assoc., - Dana Woolfrey and Paul Wood (00:00-56:20)**

a. June 30, 2019 TSRS DRAFT valuation report and discussion

Valuation Report results of the plan's funding status are down slightly relative to the prior valuation, but better than other years. The Plan has an unfunded liability of \$306.88 million and a funded ratio of 72.8%. The Funded ratio has decreased from 76.2% to 72.8%, primarily due to assumption changes. Assumptions that were updated since the prior valuation are, inflation reduced from 3.00% to 2.50%, salary scale has been increased from 0.0% to 0.5% and the investment return assumption reduced from 7.25% to 7.00%. Compared to our peers we are on the conservative side which is where we want to be. Some discussion was held regarding what made up the 0.5% increase in salary.

**A motion was made by Kevin Larson, 2<sup>nd</sup> by Michael Coffey to approve the Draft Valuation Report, passes unanimously (Jorge Hernandez absent/excused).**

b. Recommended Contribution Rates for 2021 Plan Year Beginning July 1, 2020, Ending June 30, 2021

It is recommended that we increase the employee rates for the Tier I variable from 6.75% to 7.0% and to increase Tier II rates from 5.25% to 5.5%. No changes are recommended for the employer rates or for Tier 1 employees hired prior to July 1, 2006 for FY 2021.

**A motion that Mayor and Council adopt the recommended contribution rates of 7.00 for Tier 1 variable and 5.50 for Tier 2 for fiscal year 2021 was made by Kevin Larson, 2<sup>nd</sup> by Michael Coffey, passes unanimously (Jorge Hernandez absent/excused).**



c. Review of TSRS Funding Projections

Dana stated that it is very important that we stick to the current funding policy (27.5% city minimum). It will keep the plan on fully funding path. If we over perform we will reach 100% funding quicker. We could be fully funded in 14 years. Anything less than 20 years is good.

The Plan is still expected to be sustainable and on an upward funding trajectory. Contributions in excess of the Actuarially Determined Contribution (ADC) helped improve the funded ratio. The total ADC as a percentage of pay is 30.28% compared to the ADC as a percentage of pay in the prior year of 27.06%. This total rate, net of employee contributions, is used in setting the City required contribution rate for the upcoming FY 2021.

**Discussion held, no formal action taken.**

d. Acceptance of 06/30/19 Draft Valuation Report, Adoption of FY 2021 Contribution Rates

This item was included in the consideration of each detail above.

**8) Education Session – Callan LLC – Paul Erlendson and Gordon Weightman (56:20-01:57:17)**

a. Fixed Income – Index v Passive Management

Gordon Weightman discussed active versus passive management in Core Fixed Income.

TSRS has a 27% target allocation to fixed income within the plan. It's meant to diversify riskier assets, provide some income and be a capital preservation vehicle during difficult times. Currently, we have two managers divided equally 50/50, PIMCO and Blackrock.

Active investing attempts to add modest amounts of value over the return of the Bloomberg Aggregate index with a limited amount of tracking error. Passive investing tries to replicate the return of the underlying index. Actively managed core bond strategies have historically outperformed the Bloomberg Aggregate Index. Higher amounts in treasury equals access to cash quicker therefore, we can raise amounts in treasury to match our cash flow.

Chairman Rubin asks if we have the ability to choose a manager. Gordon indicated the Board does have the ability to choose a manager. Paul asks if there is any interest in looking at active managers. Mr. Larson says, yes, we should study it a bit further, definitely worth more discussion. He also wanted the Board to know that they'd be taking on more risk in pursuing this endeavor, however, it has benefited them so far. Art will work with Callan and coordinate with their next visit in February. Paul states that if we did nothing we'd have a very well-run system. Most important is to pick a manager that we will stick with for the long run.

**Presentation given by Gordon Weightman, discussion held. No formal action taken. Direction was provided to staff to work with Callan to explore active management of the fixed income portfolio.**

b. Infrastructure Update

Board agrees to move ahead with private sector and proceed with open end funds. Paul strongly encourages us to interview IFM and JP Morgan soon as it could take 6-14 months before we can invest with them once we've decided. Art would like to interview them at the February 2020 meeting with a potential start date of March 2020.

**Presentation given by Paul Erlendon, discussion held. No formal action taken. Direction was provided to staff to interview IFM and JP Morgan at February 2020 meeting, with a start date in March 2020.**

Break: 3:08 pm  
Returned: 3:21 pm

**9) Investment Activity Report – Callan LLC – Paul Erlendson and Gordon Weightman (01:57:17-02:16:37)**

**a. TSRS Quarterly Investment Review**

Gordon discusses our target asset allocation vs our actual asset allocation, as of September 30, 2019.

We have 3 million dollars in benefit payments every month and we tend to take that from asset categories where we are overweight and we want to make sure we stay pretty close to number as possible. The closer we stay to it we can replicate that risk profile that we've identified to help meet liabilities over time.

Looking at our 31-year history on an annualized basis we are at 8.4%. Which is higher than our current 7% return. It shows that a diversified portfolio of stocks and bonds has gotten us where we need to go from a return prospective. We are in the top 3% when compared to other municipalities. Paul points out that our performance over our benchmark over the last 5 years is 1.2% which is off the charts. Most funds are around their benchmarks or minus, which means the active managers they've had have underperformed benchmarks. We have a great set of managers who've been consistent as a group.

Discussion on how JP Morgan has been down a bit because of core real estate and getting late into the industrial game. Mr. Coffey asks what the value/purpose of real estate is on our portfolio. Paul responds that real estate is good to have because, its income provides higher yields, it theoretically provides some inflation protection and as a secondary benefit it's valued infrequently so the volatility is much tighter.

**Presentation given, discussion held. No formal action taken.**

**10) Fiduciary Training – Yoder and Langford – Catherine Langford (02:16:37-03:16:47)**

The Fiduciary Role can be summarized as the obligation to administer the plan and to invest the plan assets. Fiduciaries must act as an experienced or knowledgeable expert. The Board is the plan's fiduciary and is entrusted with the management of the trust. The key areas of fiduciary concern are, system governance, actuarial management, investment selection/monitoring (Callan), administrative oversight (TSRS staff) and communication. The Board owes duty of loyalty to TSRS members and beneficiaries. Loyalty prohibits self-dealing and conflicts of interest. They must act on behalf of TSRS, not the City. No personal or political stake in the outcome of a Board decision and impartiality is required.

Recommended practices for board members are to be familiar with the TSRS Code and Board policies; stay informed about key issues facing public retirement systems; stay up to date about compliance changes and industry trends; make a professional commitment to ongoing training and development; consider Board level strategic planning.

We should not use City accounts to hold TSRS funds. That could lead to a potential risk of the City having access to TSRS assets which is a prohibited transaction whether they use it or not. Additionally, we want to make sure that Mayor and Council aren't making pronouncement decisions. Also, Cassie works for the City and providing advice to the Board would be attorney-client privilege. If the Board has a conflict with the City we need to hire a separate attorney.

In conclusion; effective plan governance improves plan performance; poor plan governance will be identified in the event of any legal challenges; Fiduciary training and good management improve administration and communication regarding how the Board implements policies and procedures increases confidence in the system.



Presentation given, discussion held. No formal action taken

**11) Articles for Board Member Education / Discussion**

- a. Falling Interest Rates Wreak Havoc in US Pension System
- b. Public Pension Plans Continue to Shift Into U.S. Stocks

**12) Call to Audience (03:16:47-03:17:11)**

None Heard


**13) Future Agenda Items (03:17:11-03:18:36)**

Review of Investment Policy Statement.

Cancel December meeting unless a disability application.

**14) Adjournment (03:18:36)**

Adjourned 4:42 pm

  
Mark Rubin  
Chairman of the Board  
Date 1/23/2020

  
Art Cuaron  
Pension & Benefits Administrator  
Date 2/3/2020